

Message Text

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ACTION EUR-12

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R 192046Z SEP 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 4794
INFO AMEMBASSY PARIS

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C O R R E C T E D C O P Y (SECTION 1 OF 3 VICE 1 OF 2)

USOECD ALSO FOR AMEMBASSY PARIS

USEEC

E.O. 11652:N/A
TAGS: ECON, EFIN, CA
SUBJECT: SECOND QUARTER 1977 CANADIAN BALANCE OF PAYMENTS

REF: A. OTTAWA 5259, B. OTTAWA 7841

1. SUMMARY. SECOND QUARTER 1977 CANADIAN SEASONALLY ADJUSTED CURRENT ACCOUNT DEFICIT OF CANADIAN DOLS 1,548 WAS NEARLY DOUBLE THE DOLS 845 BILLION DEFICIT RECORDED IN THE FIRST QUARTER. TRADE SURPLUS DECLINED SHARPLY AND DEFICIT IN SERVICES BALANCE CONTINUED TO WIDEN DUE PRIMARILY TO INCREASED NET OUTFLOWS OF INTEREST AND DIVIDEND PAYMENTS. LARGER DEFICIT ON CURRENT ACCOUNT ALMOST COMPLETELY OFFSET BY NET INFLOWS OF LONG AND SHORT TERM PRIVATE CAPITAL. NET DIRECT INVESTMENT WAS POSITIVE AND EXCEEDED CANADIAN DIRECT INVESTMENT ABROAD FOR THE FIRST TIME IN A YEAR; NEW ISSUES OF CANADIAN SECURITIES ABROAD DOWN SLIGHTLY FROM
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FIRST QUARTER, BUT RUNNING AT HIGH LEVEL. OFFICIAL RESERVES DECLINED BY DOLS 13 MILLION AFTER DOLS 766 MILLION DECLINE IN FIRST QUARTER. BALANCING ITEM IN SHORT TERM CAPITAL ACCOUNT WAS STRONGLY NEGATIVE. ON NON-SEASONALLY ADJUSTED BASIS, SECOND QUARTER CURRENT ACCOUNT DEFICIT WAS DOLS 1,481 (NOTE: ALL COMPARISONS WITH FIRST QUARTER ARE BASED ON REVISED FIRST QUARTER STATISTICS PUBLISHED IN

CONJUNCTION WITH SECOND QUARTER FIGURES; SEE TABLE, PARA.
8). END SUMMARY.

2. CURRENT ACCOUNT: SEASONALLY ADJUSTED CURRENT ACCOUNT DEFICIT IN SECOND QUARTER WIDENED TO DOLS 1.55 BILLION IN SECOND QUARTER FOLLOWING DEFICIT DOLS 845 MILLION IN FIRST. MOVEMENT WAS DUE TO SHARP FALL IN TRADE SURPLUS AND CONTINUED INCREASE IN SERVICE DEFICIT. ON NON-SEASONALLY ADJUSTED BASIS SECOND QUARTER CURRENT ACCOUNT DEFICIT WAS DOLS 1.48 BILLION.

3. TRADE BALANCE: SEASONALLY ADJUSTED MERCHANDISE TRADE SURPLUS DECLINED TO DOLS 307 MILLION FROM DOLS 823 MILLION SURPLUS RECORDED IN FIRST QUARTER. VALUE OF MERCHANDISE EXPORTS FELL FROM DOLS 10.9 BILLION TO DOLS 10.8 BILLION, ONLY ABOUT ONE PERCENT, AS INCREASES IN EXPORTS TO U.S. AND JAPAN WERE MORE THAN OFFSET BY DECLINES IN OTHER MARKETS. VALUE OF IMPORTS ROSE FOUR PERCENT. IN PRESS RELEASE, STATCAN NOTES THAT SHRINKAGE IN THE SURPLUS IN SECOND QUARTER COULD BE TRACED TO PERVERSE, "J CURVE" EFFECTS OF CANADIAN DOLLAR DEPRECIATION. WHILE CANADIAN TERMS OF TRADE DECLINED IN THE SECOND QUARTER (PRICE OF MERCHANDISE EXPORTS ROSE BY 1.2 PERCENT, PRICE OF MERCHANDISE IMPORTS, BY 2.9 PERCENT) THE MOVEMENT IN EXPORT AND IMPORT VOLUMES WAS MORE IMPORTANT CAUSE OF REDUCTION IN TRADE SURPLUS. STATCAN ESTIMATES (REF. B) SHOW 2.1 PERCENT FALL IN EXPORT LIMITED OFFICIAL USE

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VOLUMES AND 1.3 PERCENT RISE IN IMPORT VOLUMES IN SECOND QUARTER. EMBASSY CALCULATIONS INDICATE THAT CHANGES IN IMPORT/EXPORT VOLUMES ACCOUNTED FOR ABOUT 70 PERCENT OF THE NEGATIVE SWING IN THE TRADE BALANCE. THUS, IT IS MORE LIKELY THAT DECLINE IN TRADE SURPLUS MAINLY REFLECTS DOWNWARD ADJUSTMENT TO UNSUSTAINABLY HIGH RATES OF EXPORT GROWTH IN FIRST QUARTER.

4. SERVICES: SERVICE DEFICIT CONTINUED TO WIDEN, RISING FROM DOLS 1.79 BILLION IN FIRST QUARTER TO DOLS 1.94 BILLION IN SECOND. MAIN CULPRIT WAS DOLS 107 MILLION INCREASE FROM FIRST QUARTER IN NET INTEREST AND DIVIDEND PAYMENTS. TRAVEL DEFICIT INCREASED BY ONLY DOLS 12 BILLION TO DOLS 449 BILLION.

5. CAPITAL ACCOUNT: NON-SEASONALLY ADJUSTED NET CAPITAL INFLOWS OF DOLS 1.47 BILLION OFFSET ALMOST ENTIRE CURRENT ACCOUNT DEFICIT WITH RESULT THAT OFFICIAL RESERVES FELL BY ONLY DOLS 13 BILLION. (HOWEVER, THIS YEAR'S LONG TERM CAPITAL INFLOWS ARE NEXT YEAR'S INTEREST/DIVIDEND PAYMENTS)

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C O R R E C T E D C O P Y (SECTION 2 OF 3 VICE 2 OF 2)

6. LONG TERM CAPITAL FLOWS: NET TOTAL LONG TERM CAPITAL INFLOWS ROSE BY 25 PERCENT TO DOLS 1.25 BILLION IN SECOND QUARTER. DIRECT INVESTMENT IN CANADA WAS POSITIVE (DOLS 190 MILLION) FOR THE SECOND STRAIGHT QUARTER. CANADIAN INVESTMENT ABROAD TOTALLED DOLS 130 MILLION. THUS, FOR THE FIRST TIME IN A YEAR, NET DIRECT INVESTMENT FLOWS WERE POSITIVE. NET INFLOWS OF LONG TERM PORTFOLIO CAPITAL ROSE FROM DOLS 1.16 BILLION IN FIRST QUARTER TO DOLS 1.26 BILLION IN SECOND QUARTER. NEW ISSUES OF CANADIAN SECURITIES ABROAD FELL BY DOLS 91 MILLION TO DOLS 1.34 BILLION IN SECOND QUARTER, BUT CONTINUE AT HIGH RATE.

7. NET SHORT TERM CAPITAL INFLOWS UNDERWENT POSITIVE SWING OF DOLS 389 MILLION BETWEEN FIRST AND SECOND QUARTERS (FROM MINUS DOLS 174 MILLION TO PLUS DOLS 215 MILLION). HOWEVER, BALANCING ITEM (ERRORS AND UNIDENTIFIED TRANSACTIONS) INCREASED FROM MINUS DOLS 47 MILLION IN FIRST QUARTER TO MINUS DOLS 847 MILLION IN SECOND QUARTER. WHILE NEGATIVE SHIFT IN BALANCING ITEM COULD BE MERELY THE RESULT OF STATISTICAL AND OTHER DISCREPENCIES, BOTH THE CHANGE IN AND THE ABSOLUTE VALUE OF THE BALANCING ITEM WERE LARGER THAN

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USUAL. THIS COULD MEAN THAT MARKET OPERATORS FEEL CANADIAN DOLLAR DEPRECIATION HAS SOMEWHAT FURTHER TO GO.

8. TABLES: FIRST QUARTER (REVISED) AND SECOND QUARTER
BALANCE OF PAYMENTS, MILLIONS OF CANADIAN DOLLARS.

A. CURRENT ACCOUNT BALANCE, SEASONALLY ADJUSTED (PAREN-
THESIS INDICATE NEGATIVE NUMBERS):

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-----	I(R)	II	
MERCHANDISE TRADE (BOP BASIS)		823	307
SERVICES	(1,789)	(1,937)	
OF WHICH TRAVEL	(437)	(449)	
INTEREST AND DIVIDENDS		(740)	(847)
NET TRANSFERS	121	82	
TOTAL CURRENT BALANCE		(845)	(1,548)

B. CAPITAL ACCOUNT BALANCE, NOT SEASONALLY ADJUSTED

-----	I(R)	II	
LONG TERM CAPITAL	1,003	1,253	
OF WHICH DIRECT INVESTMENT		(60)	60
PORTFOLIO	1,164	1,262	
OF WHICH NEW ISSUES	1,428	1,337	
SHORT TERM CAPITAL	(174)	215	
BALANCING ITEM	(47)	(897)	
TOTAL NET CAPITAL	829	1,468	

C. RECAP

----- I(R) II
CURRENT ACCOUNT BALANCE NOT
SEASONALLY ADJUSTED (1,595) (1,481)
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CAPITAL ACCOUNT BALANCE 829 1,468
CHANGE IN RESERVES (766) (13)

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Message Attributes

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